EDC'S MAGAZINE FOR CANADIAN EXPORTERS

11

ExportWise

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Where in the world is small business going?

Emerging markets. Find out why and how.

How they're setting up foreign affiliates

How they're coping with the crazy loonie

Which markets are hot

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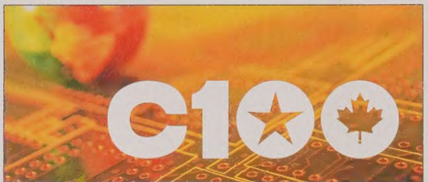
Export**Watch**

UP CLOSE WITH EXPORT SUCCESS

Ray Mills, President of KUDU Industries, is the face of just one of thousands of Canadian companies thriving from exporting and investing abroad. KUDU was named Exporter of the Year, and also won the Oil & Gas Manufacturing Export Award, presented by EDC at the recent Alberta Export Awards ceremony in Edmonton (albertaexportawards.ca). It's one of many similar programs across Canada that EDC supports, run by industry association partners like CME, to celebrate export success and inspire more firms to grow globally. Check out the export award program in your province if you think you have what it takes to be an export winner too!



WHERE SILICON VALLEY MEETS CANADA

EDC recently partnered with C100, a select group of Canadian high-tech entrepreneurs mainly based in California's Silicon Valley who are using their collective expertise to help grow a new generation of successful Canadian-led technology companies. Through this partnership, EDC will participate in the C100 mentorship program and other events to increase our support and understanding of the ICT community, its financial needs and the Canadian venture capital industry.

BUILT FOR COLLABORATION

Welcome to EDC's new leased head office in downtown Ottawa, unifying some 1,100 employees from two nearby buildings. The 150 Slater Street tower has been registered for Gold certification in Leadership in Energy and Environmental Design (LEED), a rating system for construction projects that demonstrate environmental responsibility and energy efficiency. The building also incorporates interior design and the latest technology to support collaboration between employees, and with our customers. Outside Ottawa, EDC has some 130 employees placed in 16 regional offices across Canada and 16 locations in or near the world's key emerging markets – serving Canadians wherever they do business.

Export**Web**

edc.ca

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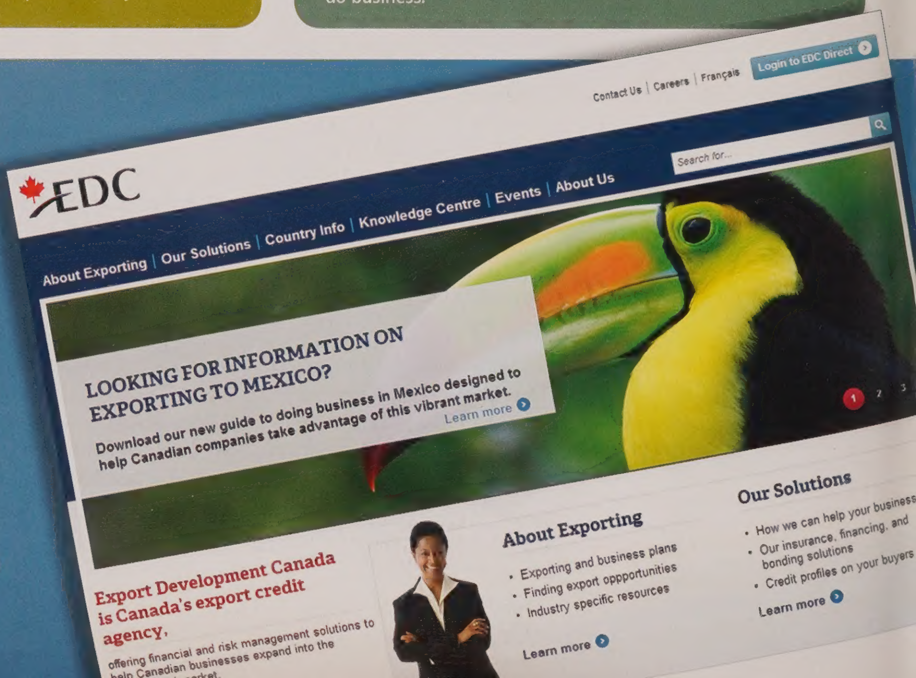
More Relevant.
More Accessible.

EDC.ca got a facelift … new design, new structure and slimmed down content to put critical information about exporting at your fingertips.

We hope you like it and we welcome your feedback.



A View From the Regions

TURKEY

Turkey snapshot:

- World's 17th largest economy
- One of the fastest growing economies coming out of the global economic crisis
- 3rd most populous nation in Europe
- Preferential Customs Union access to the European Union
- Young and educated population with a growing middle class
- Strong links with the Central Asian republics, the Middle East and the Balkans

BY BURAK AKTAS

EDC Chief Representative, Eastern Mediterranean, based in Istanbul

You might have heard the expression "Turkey: Where east meets west." That's because Turkey is the meeting place of two fundamentally different cultures: west of the Bosporus is geographically part of Europe; cross the strait and you are in Asia. I've been here on behalf of EDC for a little over a year now, and since I was born and raised in Istanbul – it's good to be home.

Istanbul is one of EDC's newest foreign representations. My role is to lead EDC's business development strategy in the region and support activities in the Balkans (Albania, Bosnia, Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, Romania, Serbia and Slovenia), Georgia, Azerbaijan, Israel and Turkey.

Canada has a relatively strong commercial relationship with Turkey – the world's 17th largest economy, a G20 member and the third most populous nation in Europe (more than 70 million) after Germany and Russia. Given its strategic geographic location and negotiated trade agreements, Turkey can also provide access to markets in Europe, the Caucasus, Central Asia, and the Middle East.

Turkey also has the biggest growth rate after China in a shaky global economic environment, so I see plenty of opportunities for Canadian expertise every day, particularly in telecom, infrastructure, power generation, mining and automotive sectors. Tourism is a big player in the economy here, and for good reason. I might be biased, but it's truly one of most beautiful countries in the world.

I've spent the last year developing relationships with leading Turkish financial institutions and industrial groups and buyers in key industry sectors in order to open doors to Canadian companies. We provide financing support as well as domestic due diligence support and also work with DFAIT's Trade Services.

Last year, EDC provided financial solutions for 433 Canadian companies doing business in the region; for more than $1.3 billion of trade with Turkey and close to $2 billion in the Eastern Mediterranean region.

Doing business in the region

Doing business in Turkey requires an understanding of the people, culture, etiquette and approach to business. If you are going to Turkey to do business, know that your success is defined by your ability to build effective personal relationships combined with a clearly outlined and well presented proposal.

Face-to-face meetings are how business is done, and the business dress code is very important, particularly in the banking community in Turkey. Turks will consider doing business with those they like, trust, feel comfortable with and those who can provide a long-term relationship. Turks are also astute business people, so make sure any proposal clearly demonstrates the mutual benefit and profitability of any partnership.

They will expect you to get to the point and not waste their time. They also expect you to deliver on time and meet your promises.

Credibility is extremely important in the region. If you don't give the impression that you know what you're talking about, you won't get another meeting. Finding a good local partner is very important and can help with many of these cultural imperatives. And the business people here are very entrepreneurial, so keep that in mind.

A nation rich in resources, an established democracy undergoing liberal reforms and the possibility of joining the EU make Turkey one to watch for the near future. If you're considering doing business in the region, or hope to grow your current business here, contact me and we'll see what we can do!

baktas@edc.ca

Photos: world © btrenkel/iStockphoto; people © mediaphotos/iStockphoto

Where in the World is Small Business Going?

BY TOBY HERSCOVITCH

EDC's Regional Vice-President for Small Business Solutions Denis L'Heureux speaks and writes regularly on export trends and tips for Canadian small and medium-sized enterprises (SMEs). He draws on his experience managing a team of 35 people that deals with some 4,500 small businesses every day. Here he combines this knowledge with the latest EDC research to report on who's doing business abroad, where they're going, how and why – or why not.

EW: What do you find most encouraging today about the state of small business?

Denis L'Heureux: When EDC recently asked SMEs what their number one priority was, they overwhelmingly told us that expanding their sales outside Canada was top of mind.

There has also been a definite trend among Canadian business, over the past decade, towards diversification of exports to emerging markets. In 2000, more than 85 per cent of Canadian exports ended up in the United States; today that number is less than 75 per cent. The difference is going primarily to emerging markets.

Is this a trend you're seeing among EDC's own exporting customers?

Absolutely. EDC is seeing more and more of our own clients – 80 per cent of whom are SMEs – expanding their sales in key emerging markets. Our customers' business volume in those markets, that is, the value of their sales and investments using our insurance or loan services, increased by more than a third between 2009 and 2010.

All this is good news for two reasons: it helps reduce Canadian businesses' dependence on just one external market, the United States, and it makes our companies more competitive against foreign companies that are diversifying their exports too.

Better still, the number of Canadian direct investments abroad that EDC facilitated grew by 20 per cent to nearly 575 transactions in 2010. This is a good barometer of what other Canadian companies are doing or want to do.

So, what's motivating SMEs to export and invest abroad more seriously than before?

There are several factors that can explain this phenomenon. Not surprisingly, the value of the Canadian dollar, relative to the U.S. currency, and the current state of the U.S. economy have been the mother – and father – of necessity for Canadian companies. The strong demand for commodities in emerging markets is also a big factor.

Companies say they invest in emerging markets mainly to grow their sales and diversify their market base – trying to offset a downturn in one market, by an upswing in another. Other reasons include being closer to key customers, where after-sales service is a big part of their offer. The ability to reduce production costs and avoid tariffs also influences their decisions.

And here's the reward: while sales to the U.S. have been stagnating in many sectors, three-quarters of the 335 exporting companies we recently surveyed were experiencing 5 to 15 per cent, or more, sales growth in emerging markets. And they see this growth as a sustainable trend.

What are the toughest hurdles for SMEs when they enter emerging markets?
SMEs often express to us the desire to diversify into faster growing emerging markets, but they say their resources – both people and financial – are stretched thin keeping up with their day-to-day business.

When we asked them about the biggest hurdles to international trade, they voiced three main concerns: the value of the Canadian dollar, the volatility of the global economy and access to financing.

Can you be more specific about their challenges and anxieties?
Many companies say they lack the expertise and time to address a new set of unknowns, which can be quite overwhelming. For example, they are not sure how to identify the right business partners – something that is critical to success abroad.

Next, they are concerned about dealing with local bureaucracies and regulations, which is something those already exporting to emerging markets find equally frustrating. They also think trade barriers such as customs logistics, tariffs and duties may be too complex and costly.

Two other challenges revolve around obtaining financing and evaluating political risks, such as possible insurrections or expropriations, that can come with trade in emerging markets.

What can SMEs do to overcome these concerns?
Obviously they first have to want to grow and believe that exporting will be more rewarding than risky, and the evidence of that is certainly convincing. In an ideal world, SMEs would also have an employee who can concentrate on an export strategy, risk mitigation and supply chain management, but this is not always possible.

Thankfully, there are several organizations that can help SMEs on these issues. The federal government's Trade Commissioner Service has employees in Canada and abroad who are there to answer these questions. And the various provincial governments too have excellent organizations that can provide valuable export advice and support. There are also loads of online resources, including those put out by EDC on edc.ca and exportwise.ca, which also link to these partners. Just reading this article is a good start!

On the financing side, EDC can make a big difference. We can work with SMEs, usually by partnering with their regular banks or insurance companies, to provide a whole host of credit insurance and financing tools, along with market and risk mitigation expertise. We call this our "partnership-preferred" principle.

What advice do you have for SMEs before they launch or expand their export plans?
First and foremost, SMEs need to make sure they have a solid foundation at home before considering expanding into emerging markets. If the company is not in a stable financial position, adding more risk by exporting to emerging markets is not a good idea. This also makes it difficult for EDC to provide appropriate services.

Do you have any other dos and don'ts?
From time to time, we get a request from, for example, a \$2-million company going after a \$20-million contract abroad. The company dreams big, and that's good, but then fails to fully assess its ability to deliver. They should ask themselves two questions in this case: Do we have an appropriate level of financial capacity to enter into such a contract? Do we have the technical expertise to deliver a contract that is 10 times what we have done before? On occasion, we have helped

Facts & Figures

Small businesses create the most private sector jobs in Canada and make up most of Canada's exporters. However, their influence looks much different when it comes to the share of firms that actually export. Only two per cent of Canada's 1.14 million SMEs (with a payroll of at least one person) were exporters in 2009. There is one proviso: most SMEs are in the service industry and this data may not fully capture all such exports.

From EDC's surveys, we see a strong correlation between high-growth firms and their export plans and activities. They also typically invest more in R&D – as much as 10 to 20 per cent of their revenues or more; for slower-growers it's usually less than 10 per cent.

When one considers that only about half of businesses that enter the marketplace survive for five years, it is left to many SMEs to adapt – by innovating more, exporting and investing abroad more – if they plan to be around for the long haul.

Some of the latest facts and figures on small business from Industry Canada:

Small firms employ 5 out of 10 people in Canada's private sector.

1.5% of all small firms export and; 2% of SMEs; compared to 27% of medium-sized firms and 40% of large companies.

Small and medium-sized firms represent over 85% of total Canadian exporters (some 33,000 out of 38,700 exporters in 2009).

Small business sells about 25% of Canada's total export value; 40% for SMEs.

98% of all Canadian businesses have fewer than 100 employees (small firms).

85% of new businesses survive for 1 year, 70% for 2 years and 51% for 5 years.

79% operate in service industries; 21% produce goods.

See: Key Small Business Statistics, July 2011 at www.ic.gc.ca

Industry Canada classifies small business by number of employees – firms producing goods are considered small if they have fewer than 100 employees; for services, the cut-off is 50 people. Above those sizes, and just below 500 employees, a firm is medium-sized. EDC defines small exporters as companies with total annual sales of up to \$10 million.

companies lift much more than their weight – propelled by their exceptional expertise, a strong financial position…and lots of guts!

The third challenge is dealing with a small firm that has reacted to an opportunity, but has not researched even the most basic risks. For instance, is their buyer credible? Have they considered the legal risks – the way the contract is written, the delivery requirements, and more?

Although we do experience these situations from time to time, more often we see SMEs that are ready to expand in emerging markets, and our team is always excited when we can help!

From your work with so many successful small exporters, what are they doing right?

First of all, they have an export plan and are proactively targeting emerging markets. Most high-growth companies have several foreign buyers and sell to more than one foreign market.

Secondly, these companies are investing internationally to different degrees – from keeping inventory abroad, setting up a sales office, entering into a joint venture or setting up a manufacturing facility abroad. The strong loonie has increased this opportunity for Canadian companies by making the purchase of foreign assets more affordable.

Thirdly – and this is something that may be easier for many SMEs – they try to get into the global supply chain of a large Canadian or U.S.-based multinational company and get their product or service "known" in an emerging market that way. This has led to companies being approached directly by a foreign buyer, or discovering a niche to spin off their own business in a new market.

Is there anything else that these firms are telling you?

One common thread that runs through all the advice we hear from successful small exporters is the importance of finding a reliable and knowledgeable agent in the market you target. Before you hire someone, it is critical to get advice from experts whom you already trust – such as business partners, trade commissioners, and our own market reps. You should ideally travel to the market more than once and meet the potential agent face-to-face – you want to be comfortable that the person truly understands both the commercial and technical sides of your business.

Working with a local agent is a good first step in getting your feet wet in a certain market, before possibly investing there.

Which are the most popular emerging markets for SMEs?

Among EDC's clients, China, India and Brazil are the most sought-after emerging markets due to their strong growth – forecast to be at least triple (China and India) and double (Brazil) that of the U.S. market over the next five years. Canadian companies are also telling us they are very interested in Mexico, thanks to NAFTA and the country's relative proximity. Some 2,500 Canadian businesses of all sizes already have affiliates or other local presence there.

Other SMEs prefer to target smaller Asian countries like Thailand or Indonesia, or some of the fastest-growing markets in Latin America, like Panama, Peru, Chile and Colombia, which have become much more stable in recent years. These secondary emerging markets may see less competition from large companies and can potentially be good targets for SMEs.

Interestingly, Industry Canada reports that in 2009 small businesses exported disproportionately more than medium-sized or large firms to India, Egypt, Turkey and South Korea, in that order.

*For more SME tips, check out Denis's bi-monthly column at **exportwise.ca**.*

Stages of Growth

Do you have an example of a company that started small when it first came to EDC and has shown impressive global growth?

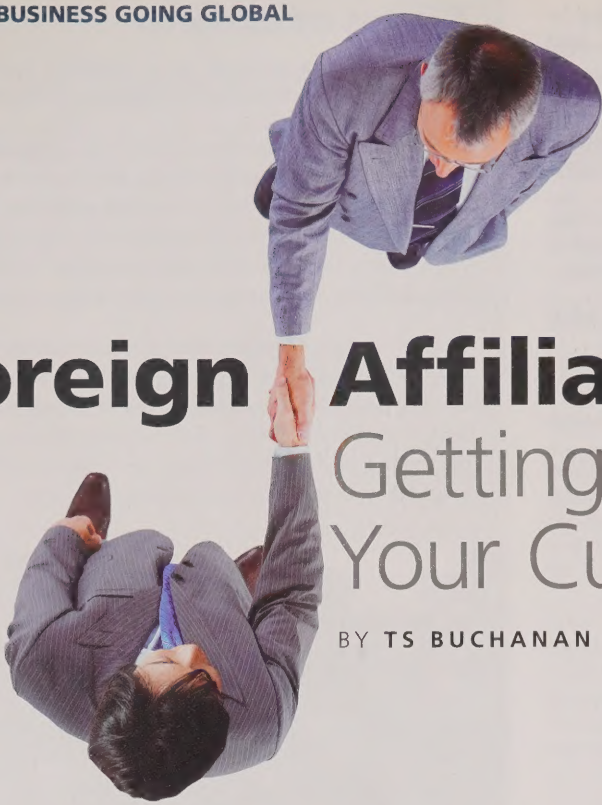
Wow, it's hard to pick one; there are so many successful entrepreneurs we know! Let me just tell you about a firm we recently interviewed for a video. If you've attended an outdoor festival, you've probably seen a mobile stage made by this client. Its product was a huge innovation when ***Stageline*** started the company in Montreal's south shore about 25 years ago.

Imagine – its stages could be set up by four or even fewer workers in just a few hours, compared to conventional set-ups that took up to 30 people a full three days! But when Stageline started to attract international interest, about 12 years ago, it had to get the financing to turn out its products for overseas sales. Not an easy task for a small unknown company at the time!

So, how did Stageline overcome that challenge and take its product around the world?

In a nutshell, the company originally came to EDC on its bank's recommendation, when it received its first international order from the U.K. We provided a guarantee at the time, on a loan from one of our small business financing partners. We also adapted our credit insurance policy to cover its complex leasing contract; the large stage-trailers are sometimes leased, rather than purchased outright. Pardon the pun – it all went without a hitch!

Today, Stageline is the world's leading designer and manufacturer of mobile hydraulic stages, selling to more than 35 countries. This year, for example, three units were flown to Nigeria and the company introduced a new ultra-portable model. Like so many other companies, Stageline had to cut costs during the recession, but sales remained relatively steady, thanks to its diverse markets. *Catch the video on **exportwise.ca**.*



Foreign Affiliates: Getting Closer To Your Customers

BY **TS BUCHANAN**

More and more Canadian companies are investing in foreign affiliates. Why? Because they need to diversify their customer base. And because foreign buyers in high-growth emerging markets, such as China, Mexico, Brazil and India, increasingly expect companies to have a local presence.

No doubt, spreading your company around the world can be challenging and expensive, and opening a foreign affiliate can be riskier than simply making an export sale. To some Canadian companies, the prospect might seem daunting. But investing abroad can be a natural hedge against other risks such as currency fluctuations, and many companies are learning that – in order to survive – they can't afford not to.

And the strategy is paying off. Canadian companies operating abroad today are generating about the same level of sales from foreign operations as they are from export sales from Canada: about $460 billion as of 2009 data. According to Statistics Canada, Canadian foreign affiliate sales grew at *twice* the rate of Canadian exports over past decade, with sales originating in emerging markets nearly tripling during this period. Make no mistake – globalization is a force of nature.

Now is the time to make these inroads; the dollar is relatively strong and new opportunities are emerging every day. As the speed of scientific and technological advancements accelerates, consumer tastes are shifting, giving rise to entirely new industries and demand for new products in sectors like food, transportation, health, education, energy and clean tech.

Making connections in Vietnam

Montreal-based Groupe Lavergne produces high-quality engineered resins from recyclable materials. They take undervalued scrap, returned expired goods, or damaged products and produce a resin that can be molded back into the original end product or upcycled into a value-added product. These specialty plastic resins are in many applications such as auto components and ink cartridge materials for companies like Hewlett Packard, where 70 and 100 per cent of the plastic in a new cartridge can be recycled material.

The company started in 1984 and their competitors are the huge resin producers such as Dupont, so it's been a challenge to overcome initial impressions of being a small player without the huge name recognition, says President Jean-Luc Lavergne.

But tremendous change occurred in specialty resins technology around 1999, which is when their business really took off and exports exploded. Now, they export primarily to Asia – China, Malaysia, Singapore, Korea and Japan – where demand is huge. In fact, domestic business is now less than one per cent.

Photo: © Jacob Wackerhausen/iStock

About three years ago, Lavergne understood that he needed a local presence in Asia – his large Asian customers wanted him closer to the market.

"The challenge was finding the right location, in the right country," says Lavergne. "We knew nothing about the local laws and regulations of various Asian countries and weren't sure if the idea was even viable. And it's a significant investment." After looking at many options, he eventually determined that Vietnam was the place.

First, he made contact with the Vietnamese embassy in Canada, from which he received a lot of support. "The embassy in Ottawa helped me make some critical local Vietnamese connections," says Lavergne, connections that in turn led him to specialists in real estate. "I wanted to buy and rework an existing facility, and that takes local contacts in Saigon and Danang."

He was then able to connect with people who could guide him to the industrial sectors. Of course, then he needed contractors and he wanted to hire locally. After several trips to the region, Lavergne also made contacts with several Canadian and European business people operating in Vietnam.

Lavergne wanted to replicate the production process in Quebec and ensure it was fully automated. The technology is sophisticated, which required engineers and other specific skill sets. To do so, he was able to make contacts with the local university to help find new graduates with the background required. Three of these graduates are now in training in Canada. "I needed to ensure we were producing the same quality in Vietnam as we do in Canada," says Lavergne.

For Montreal-based Groupe Lavergne, getting closer to their customers meant opening up a foreign affiliate in Vietnam.

As of July this year, the facility in Vietnam was operational, with close to 50 employees. The auto market in Asia is also showing interest in Groupe Lavergne's specialty resins, so he hopes to piggyback on the current business, grow his North American base and bring more revenues home. Certainly, it's cheaper to operate in Vietnam, but he didn't do so for the cost savings. He recognized that Asia is a huge market – and he needed to be in the heart of it.

"If you're not close to your customer, you might have trouble surviving," says Lavergne. In fact, he's fairly certain that his company would not have been able to sustain its business otherwise. Now he also hopes to gain more local customers, something that would have been more difficult from Canada.

EDC financed $2.89 million for the equipment in Vietnam through a direct loan and helped Groupe Lavergne progress through the learning curve. Now Lavergne is learning more about the local laws and customs and as a result is less fearful when he considers his next venture. "Developing a start-up is hard enough in Canada. Try doing it so far away." ■

Making the Right Connections
Groupe Lavergne's experience in Vietnam

1. Contacted the Vietnamese embassy in Canada.
2. Used the embassy to make critical local contacts; such as real estate agents, contractors and universities.
3. Visited the market and became familiarized with local laws and regulations.

Emerging Markets:
Where the real global growth is

This year the economies of India and China are expected to grow by more than **50 per cent**, Brazil by **25 per cent**. These economies are becoming major world exporters, importers, foreign investors and recipients of inbound investment, which means consumption, investments and exports will only rise.

Adopting "integrative trade" practices – such as creating foreign affiliates – has helped many Canadian companies transition away from a dependency on the U.S. market. At the start of this decade, **84 per cent** of Canadian exports went to the U.S. By 2008, that figure was down to **75 per cent** and has continued to drop, whereas **11 per cent** of our exports went to emerging markets in 2010, up from **4 per cent** in 2000. If this trend continues, in five years emerging markets could account for **20 per cent** of total exports.

Living with the **Loonie**

BY **JEAN-FRANÇOIS LAMOUREUX**

Whether the Canadian loonie keeps trading at or above parity against the U.S. dollar or ducks to the mid to low 90s, Canadian businesses of every size must be prepared to live, export and profit alongside a relatively high currency over the long haul. Here we revisit the latest circumstances, and key strategies that are working best.

The Canadian dollar's exchange rate against the U.S. dollar and many other world currencies stayed at historically high levels throughout 2011. A sustained period at parity with the U.S. greenback started in January of this year, but this time, there was a key difference: Canadian exporters were better prepared to operate with the one-to-one exchange rate than when the loonie hit parity in 2007.

Four years ago, two-thirds of Canadian exporters surveyed by EDC reported that the exchange rate was a "very important" factor in their ability to compete internationally. This year, that proportion fell to 55 per cent.

Still, this leaves more than one out of every second exporter really feeling the pinch when our loonie trades at high levels. Exporters doing business in non-resource sectors are particularly vulnerable to the dollar's value. That's because of the more stable nature of prices for non-resource goods and services compared to resource exports. After all, it is the jump in resource prices, such as in oil and gas, that often causes our currency to appreciate in the first place.

Encouragingly, the majority of exporters, big or small, have rolled up their sleeves to make important changes to their operations and strategies, so that they can continue doing business internationally – in tandem with a strong loonie. The result: many companies have not only maintained but also grown their sales to foreign buyers.

We already see some of the positive effects from companies that started implementing four key strategies to neutralize – and actually benefit from – our strengthening dollar.

1 Diversifying export markets

Many Canadian exporters have started to sell their goods and services in new foreign markets. As a result, the share of these exports to the United States fell from close to 83 per cent in 2002 to less than 71 per cent in 2010. Meanwhile, the proportion of Canadian exports to emerging markets doubled, from some 6 per cent to 12 per cent in the same timeframe.

Selling to new foreign markets can reduce the impact of a strong dollar in several ways. First, although profit margins tend to be smaller when selling to emerging markets, the large sales potential of these economies can help make up the difference. Further, by increasing their total sales volumes, Canadian exporters can take advantage of economies of scale to become more efficient and profitable.

Second, profit margins *can* sometimes be larger in emerging markets too. Deloitte Touche Tohmatsu surveyed 440 business executives and found that, in close to a third of the cases, margins on sales to emerging markets were healthier than to developed ones.

Third, entering new markets offers rich learning opportunities. Companies can observe firsthand how their industry meets local customer needs, and this market intelligence lets them benchmark themselves against their competitors in areas from reliability to innovation.

CAD value expressed in USD
(monthly average)

Source: Haver Analytics and EDC Corporate Research Department

EDC forecasts the Canadian dollar will average USD.98 in 2012 and USD1.00 in 2013. Our dollar will continue to be jostled by global volatility, but strong commodity demand from emerging markets, diminished fears of inflation in the U.S., and demand for Canadian financial assets should keep the loonie close to parity with the U.S. dollar over the next few years.

2 Establishing a physical presence abroad

EDC estimates that some 4,000 Canadian exporters have a type of business operation outside Canada. Between 2003 and 2009 (latest available data), sales of Canadian foreign affiliates grew more quickly than exports from Canada.

Setting up shop abroad can help our exporters overcome the negative effects of a strong loonie in several ways. For example, making products in the foreign market where they are sold can reduce the mismatch from production spending in one currency and earning income in another.

Also, having a foreign affiliate can enable a company to take advantage of larger labour pools and improved access to certain raw materials and technology. This can reduce costs – whether making a component, or the whole product abroad – and help make up for a "shortfall" from the customer's payment currency. Finally, having a local market presence can improve the exporter's responsiveness to foreign buyers' demands, and buyers may be willing to pay a premium for such a benefit.

3 Purchasing more foreign goods and services

From 2002 to 2007 (latest available data), imported components of *exported* manufactured goods was stable at about 40 per cent (excluding the resources sectors). Over time, as new suppliers are needed, Canadian exporters and their domestic suppliers may use more foreign content as our strong dollar continues to give them greater buying power abroad.

Purchasing more imported goods and services can reduce the negative impact of our strong dollar in two key ways. First, it reduces an exporter's foreign exchange exposure and therefore its negative influence on pricing and profit margins when the value of that foreign currency drops. Second, the greater purchasing power of a strong Canadian dollar can help cut expenses by reducing the cost of imported parts, which again increases profit margins.

4 Improving productivity

Productivity growth can be attained in two basic ways. The first centres on operational efficiency, such as investing in new technology and finding ways to eliminate waste, improve processes, reduce or better mobilize workers. This helps lower production costs, countering the effect of our currency's rise in value. The second approach focuses on innovation – creating unique products, features and services. Your customers abroad may then be willing to pay more for your products or services, allowing you to raise prices to offset the lower foreign currency value.

Which strategy should I use?

Each exporter's structure, operations and goals are unique, and selecting the best strategies to cope with the strong Canadian dollar must take this into account. Further, some strategies are more costly and time-consuming than others. A company's size, access to cash, credit and personnel all play a role in determining which ones to choose.

In general, using more than one strategy will yield better results, as many of them reinforce each other's effectiveness. For example, increasing spending on research and development enhances the likelihood of penetrating new export markets. Investing overseas can help boost the use of lower-cost imports in Canadian operations, which can help raise productivity. And diversifying export markets provides new insight into industry and market developments, which can stimulate new product development.

All this makes you more globally competitive and ready to thrive despite the high-flying loonie. *Link to the full report on* ***exportwise.ca.***

Jean-François Lamoureux, *senior advisor, EDC Corporate Reseach Department, is a frequent speaker on currency and hedging issues, tapping into his research on this subject and background as a foreign exchange trader with a Canadian bank.*

THE BIG QUESTION

Nautel: Reduce foreign exchange exposure and increase R&D

BY **PETER CONLON, NAUTEL PRESIDENT**

Nautel Limited of Hackett's Cove, Nova Scotia, is a global leader in the design and manufacture of high-powered radio frequency equipment for AM and FM broadcast, navigation, industrial and space-based applications. Its customers are public and private broadcasters, civil aviation and maritime authorities. In addition to its Nova Scotia facility, it has one in Bangor, Maine, employs some 200 people and exports to 177 countries.

We've been exporters from the very beginning. We started out providing navigational products to groups like NAV Canada, the U.S. Coast Guard and their equivalents around the world. In a typical year, we export at least 90 per cent of our production to every continent – including Antarctica. But, there isn't a huge market for our products in any one place.

Like most Canadian exporters, we experienced difficult times from 2007 to 2009 because of the rapid rise in the Canadian dollar and severe drop in demand from U.S. buyers.

One of the first things we did to offset the Canadian dollar's strength was to reduce our currency exposure. We renegotiated existing supplier contracts and set up new ones so that more purchases were made in U.S. dollars. Then, we actually *increased* spending on new product development, sales and marketing.

Simply cutting costs was not going to get us where we wanted to be. We knew we had an excellent brand but our sales were concentrated in several markets and with a number of loyal customers. The economic downturn and strong Canadian dollar forced us to establish more clearly where we wanted to grow, both in terms of product lines and geographic areas.

Given the nature of our products, we considered many fast-growing overseas markets. Our sales and marketing group also worked closely with our engineering team to identify new products and product improvements they could concentrate on. At the same time, they focused on establishing Nautel in areas of the world where it was not well known. Our financing, procurement and production teams were brought in to verify the profitability of these potential new business opportunities.

Changes paying off

The combined effort was a real success. Our sales have grown by 35 per cent since 2008, thanks in large part to new products that have allowed us to enter markets where we had done virtually no business before – namely Turkey and Saudi Arabia. In recent years, our biggest pieces of business were in these countries. For example, in one year, we sold 163 systems in Turkey.

Most recently, EDC helped us land a $20-million deal in India. And we've had a lot of activity in the Middle and Far East as well as Latin America. These are all markets that EDC helped us break into.

I really believe that if our company had failed to deal decisively with the strong Canadian dollar, our sales would have been about one-third of what they are today.

For other Canadian exporters struggling with the soaring loonie, I'd advise against focusing strictly on cutting costs. You need to build on your strengths and then find new markets where your competitive advantages will be valued.

In our case, product development and customer service differentiate us from our competition. Instead of jeopardizing those strengths through cost-cutting, we chose to elevate our game even further in these areas. I believe that is why we have been successful in reducing the impact of the strong Canadian dollar on our bottom line.

How have two SMEs adapted to the soaring loonie?

Samco: Diversify markets and source from abroad

BY **BOB REPOVS, SAMCO PRESIDENT**

Samco Machinery, with some 170 employees, is a Toronto-based manufacturer of customized roll-forming machines used in the automotive, construction, air comfort and appliance industries. The company, which marks its 40th anniversary in 2012, today has an affilate in India, an office in Mexico, and sales agents in Colombia and South Africa.

Back in 2006, our firm carefully evaluated the implications for our company if the Canadian loonie reached parity with the U.S. dollar. It seemed a remote possibility, since the loonie was worth only about 87 to 88 cents U.S. at the time, and had already appreciated quite a bit during the previous years.

The results of our evaluation were not pretty. In fact, the numbers showed that it would be close to impossible for Samco to be financially viable if the Canadian dollar reached those heights.

We had to start doing something – and do it right away! We started developing a market diversification strategy that would keep our company profitable, even if parity became a fact of life. This strategy included identifying and selling to new foreign markets, reducing component costs, improving operational efficiency and concentrating more than ever on product development.

The core of our strategy was aimed at reducing our dependence on the United States, where we had made 80 per cent of our 2006 sales. By taking a global marketing approach that included investing in our company's web site and attending trade shows outside North America, Samco was able to find new customers in India, Russia, South Africa and Western Europe.

Thanks to these efforts, and due to softer demand for our products south of the border, the U.S. market now accounts for less than 50 per cent of Samco's sales.

The potential in India appeared particularly interesting to us from a sales and manufacturing perspective, and also from a cultural context. English is often the language of business there and the legal system, like Canada's, is based on that of Great Britain.

Investing in India and Mexico

In 2007, we received a major contract from Tata Motors in India. Tata manufactures the Nano – a relatively inexpensive car geared for mass consumption – a car for all people. So we established a joint venture in India to produce our specialized machinery for the automotive industry and for other types of customers. We also started to manufacture components in India that were exported back to Toronto for our assembly operations here.

This foreign investment – now 100 per cent owned by Samco – has not only allowed our company to enter the Indian market, but also provided us with a reliable source of low-cost components for our Canadian operations.

We also opened an office in Monterrey, Mexico in 2008 to provide our full range of roll-forming solutions to the automotive and other industries there. Today, Mexico is among the 10 biggest automotive suppliers in the world, and is catching up to Canada in number of vehicles produced.

Finally, we implemented lean practices throughout our company, with a particular focus on eliminating waste from the design process. Samco also increased our investment in R&D, with the goal of developing new products to meet the needs of both existing and new clients.

We are really proud that Samco can now compete on the world stage even when the Canadian dollar is at or near parity. Margins are still tighter, but thanks to the vigorous action the company took to adapt to the strong Canadian dollar, our future and our international prospects now appear very bright. ■

Q&A

WITH **KAREN ADAMS, HSBC**

Smart Practices for Small Business Banking

BY **ERIC BEAUCHESNE**

Openness and transparency are keys to a strong working relationship between a small business and its bank, says HSBC Bank Canada's Senior Vice President and National Head of Business Banking.

Karen Adams stresses that a firm's relationship with its bank should be seen by both as a "partnership." And partners discuss their plans in advance and talk things out, including any misunderstandings or disagreements.

Similarly, the bank works closely with organizations like EDC to be able to do even more for its clients. By partnering, says Ms. Adams, we can provide a unified solution. This simplifies the financial process for small business and increases its growth possibilities at home and abroad.

FIVE WAYS TO BANK ON GROWING

Although credit conditions for smaller firms in general still remain tighter than before the 2008 financial crisis, Ms. Adams says access to financing is readily available for growing firms, especially those tapping into some rapidly expanding emerging markets.

BANK FINANCING OPTIONS AVAILABLE FO

1. Trade finance for imports and exports
2. Lines of credit and working capital finance

Market analysts and government have been urging Canadian firms to tap more into foreign markets, especially emerging markets. Is HSBC seeing evidence of that?

Yes, HSBC is receiving many more inquiries from Canadian companies regarding trade, specifically importing into Canada, exporting from Canada and investing in operations outside Canada. For example, we have a client in the food services industry in Canada who wants to start sourcing some of its supplies from Pakistan. Our client visited Pakistan recently and met with HSBC and some of our customers in their industry, for which we made the appointments, to help develop this opportunity.

Are the current tough economic times hurting the ability of smaller firms to obtain financing?

There are parts of the world today that are doing extremely well – Asia-Pacific being one of them, driven by Hong Kong and China and the other strong economies of that region. So, Canadian companies that are exporting to that region are doing quite well. Those that are purely domestic or perhaps selling goods solely into the United States are not doing as well.

What advice do you have for a smaller firm looking to effectively obtain financing from their bank to grow both domestically and internationally?

The number one piece of advice that I typically give to small firms, or any firms for that matter, in dealing with a bank or some other financial institution, is that it is extremely important to be completely open and transparent. And then provide plenty of advance notice. You can't hope to be successful if you say, "Look I need financing and I need it by next Monday." So it's important for small businesses to plan ahead.

To what extent should a business be working with its bank, even when it's not seeking new or increased financing?

HSBC always emphasizes to our customers that we're not just a service provider, "we're your partner in growth." In order to make that happen there are responsibilities on both sides and it's important that business treat the banking relationship as just that, a relationship, and talk about what's going on, even if there are no financing needs at the moment.

You talk about the importance of partnering with your financial institution. Can you offer us a real-life anecdote that illustrates how that has worked successfully?

Sure. We have a manufacturer of toys in western Canada, a growing company, a really keen entrepreneur, but she was getting in over her head. About three years ago she almost went bankrupt. We advised her that she had to have a full-time accountant, somebody who could get her finances in order.

So what happened?

She was distracted and her financial reporting to us came late...we had no choice but to send her business into an area called 'special credit,' where small businesses get intensive care and attention from HSBC, and fortunately she was nursed back to health. We got her larger facilities and encouraged her to hire a chief financial officer. I met this woman recently and she said, "You guys were delivering a really difficult message to me, but I got it together and I hired a CFO." Their sales have since tripled.

How does HSBC work with EDC to assist firms with financing to grow their business abroad?

We have so many examples of partnering with EDC across the country. What we often do is partner to provide one solution to a small business that is exporting from Canada. For example, we will use EDC insured receivables as security for financing that we provide. We have found that this structure works very well. We are looking at working more with EDC in the future.

Are there other financing options that can help companies grow, especially beyond Canada?

There are so many options, everything from providing a line of credit, to structured-term financing. HSBC is particularly good at helping our clients grow internationally by providing trade finance for imports and exports, and by helping our customers hedge currency risk through foreign exchange. Typically, small businesses are not tapping the capital markets quite yet, but at the top of the pyramid that's what is available, as well as private equity and venture capital.

Any other interesting options or incentives?

There are also tax breaks that a lot of small businesses don't know about. We have a publishing house client in Quebec City that publishes online educational material and because they are developing their own content for a global market, they have been the beneficiary of a really great R&D credit, which they didn't know about before we suggested they look into what's available.

MALL BUSINESSES INCLUDE:

3. Foreign exchange lines for converting currencies and hedging foreign exchange risk
4. Structured term loans
5. Bank-approved sources of R&D tax credits and credit insurance that they use as security against their loans

Meet Karen Adams

Senior Vice President, National Head of Business Banking, HSBC Bank Canada

Karen Adams brings more than 15 years of international corporate banking and risk management experience to her current executive role for HSBC Bank Canada. Until April 2011, she was the CEO of HSBC Jordan, and has also worked for HSBC in China, India, Hong Kong, Dubai, South Korea and London.

Alliance Grain Traders
From Seed to Pulse Giant

BY **DANNY KUCHARSKY**

Ten years ago, Murad Al-Katib had the kernel of an idea and launched a new business out of his basement in Regina, Saskatchewan. We asked Al-Katib for insights on how his business has sprouted to become Alliance Grain Traders, one of the largest lentil- and pea-splitting companies in the world.

Alliance Grain Traders, with some 460 employees, now controls about a third of global lentil exports and is forecasting close to $750 million in sales this year. Operating under the slogan, "From producer to the world," Alliance cleans, splits, sorts and packages lentils, peas, beans and chickpeas in bulk and bagged formats to 105 countries worldwide. Here, Alliance president and CEO Murad Al-Katib looks back at how the company started and some of its key growth strategies and challenges.

Create a vision based on a real need

"The vision was to take specialty and pulse crops that were grown in Saskatchewan and process and directly export them to end-use buyers and consumers all over the world," says Al-Katib of the company's 2001 debut.

"There was a gap in the market," explains Al-Katib, a son of Turkish immigrants who grew up in the town of Davidson, Saskatchewan. He noticed that Saskatchewan lacked a processing infrastructure for pulse crops and companies that could reach emerging markets. "I saw all of this product being exported in raw commodity form. My view was that we could process it competitively at the origin of supply."

Identify partners, capital and distribution channels

As a start-up, the young entrepreneur needed capital and people who could help provide him with access to markets and processing expertise. Al-Katib partnered with a company he met while working for the provincial trade development agency STEP (Saskatchewan Trade Export Partnership): Arbel Group, Turkey's largest exporter of pulses and a food supplier for more than half a century.

"It's all about setting up the global distribution channels," says Al-Katib. By 2003, he was visiting emerging markets – where pulses are important sources of protein – establishing partnerships and finding buyers. "We produced a very high-quality product and we were very competitive. We were also pretty well financed to start. As a result of that, business started to boom."

By 2004, Al-Katib's company was awarded *Exporter of the Year* by Saskatchewan's Chamber of Commerce. Within the first four years of operation, the company had almost $100 million in sales and went public on the Toronto Stock Exchange soon after.

> **When you look at five flavours of hummus in every grocery store in Canada, you see how mainstream our products have become.**
>
> **– Murad Al-Katib**

Saskatchewan-based Alliance Grain Traders now controls about a third of global lentil exports.

TOP 3 TIPS FOR VENTURING ABROAD

1. FIND THE RIGHT INTERNATIONAL PARTNERS.
2. ENSURE THE COMPANY IS PROPERLY FINANCED.
3. DEVELOP STRATEGIES TO MITIGATE BUSINESS RISKS.

Take advantage of insurance and risk management services

The desire to export came naturally to Al-Katib. He has an MBA in international trade and finance. As well, while working for STEP, he specialized in emerging markets, risk management and finance.

That experience made him familiar with EDC and he hasn't hesitated to use its services. "EDC has been with us every step of the way," says Al-Katib, noting he took out an insurance policy as soon as he began exporting and is now one of EDC's largest policy-holders in Western Canada.

EDC provides Alliance with accounts receivable insurance and backs the company's performance bonds. "They've been a very important part of our overall operations. They've helped to bring comfort to our financial institutions and to the people who invest in our company. Having our book of worldwide receivables insured gave us even more comfort in growing our business in very difficult emerging markets."

Alliance now has 28 production facilities in the world's top pulse-growing areas – 12 in Saskatchewan, Alberta and Manitoba, and another 16 in the U.S., Turkey, China and Australia. In 2009, Alliance bought Arbel Group. That move added Arbella Pasta – which is sold to 60 countries and has the world's largest-capacity pasta production line – as well as rice, milled durum wheat and bulgur to its repertoire.

Al-Katib says Alliance has been successful from the start because it focused on building a risk management program that included currency hedging, obtaining credit insurance on receivables and building internal capacity for export documentation and letters of credit.

"Even in the financial crisis of 2008 we were able to come out with a relatively good position because we knew our customers, we had a risk management program in place and we were able to mitigate the risks."

Alliance's risk management strategies paid off when floods and rains this year and early frosts last year affected crop deliveries in North America.

Those strategies were also effective last December when the company lost a few warehouses in Turkey to fire. The fire loss was minimized because Alliance had proper insurance and fire suppression systems that contained the blaze and allowed the company to rebuild the facilities faster. "It's just like credit insurance. I always say to people I carry credit insurance not because I think I'm going to have a default, but just in case."

Keep on learning

Al-Katib advises other business people to ask EDC, Canadian banks and government trade commissioners questions about doing business abroad in unfamiliar areas. "Be inquisitive. I still learn every day," says Al-Katib, who spends half the year on business trips outside Canada.

With hummus sales humming, Al-Katib sees only bright skies ahead for Alliance. "When I started this company a decade ago, I never could have projected hummus [mashed chickpeas] consumption being the way it is today in North America and Western Europe."

Al-Katib forecasts that Alliance's product line will become an even bigger part of people's diets. He envisions people eating bakery goods with lentils as a flour and breakfast cereals, dips and meatless dishes that will include beans, peas and lentils.

According to the Food and Agricultural Organization, consumption of lentils is growing six per cent annually, but Al-Katib thinks it is growing even faster. "We see lots of growth in the developed world of high-protein, high-fibre ingredients and more of a desire for vegetable protein."

Consumption of Alliance products is even rising in countries that have recently seen political unrest, like Egypt and Libya. "A basic building block of civil societies is full tummies," notes Al-Katib.

While current global economic volatility is an issue, Al-Katib says Alliance is minimizing risk by closely examining the liquidity of its partners abroad. "Our items are basic staple protein for consumption. The world needs to eat and our trade flow will continue."

Alliancegrain.com

Alta Precision
Sky is Limit to Future Growth

Alta Precision forecasts sales could reach $20 million annually in the next few years – one and a half times more than what it sells today.

BY **VALERIE XAVIER**

Alta Precision, a small company by aerospace industry standards, says having EDC "in its corner" is a major strength. Here's how the company works closely with EDC to anticipate and overcome financial challenges.

Impact of Canada's aerospace sector

The Aerospace Industries Association of Canada (AIAC) celebrated its 50th anniversary at a Summit in Ottawa this fall. The industry in Canada comprises more than 400 companies, employs some 37,000 workers directly and more than 107,000 people if you count all types of suppliers in the production chain.

Alta Precision got its start 32 years ago when master toolmaker Guillermo Alonso Sr., who had immigrated to Canada from Spain in 1956, used his experience in the aerospace parts industry to start up his own aviation business in Montreal.

"When the business was founded, Alta was more of a 'mom and pop' shop that manufactured precision parts," says Karim Zerrad, controller at Alta Precision. "Today, with a staff of 65, the company is all about specialization and the business is now run by Guillermo Alonso Jr. and his sister Sonia."

Since taking over as president in 1999, Alonso Jr. has focused the company's efforts on manufacturing complex landing gear parts and other aircraft components for the likes of Boeing, the U.S. Air Force, Bombardier and Airbus. "My father never dreamed of these opportunities when he started out," says Alonso Jr.

The company entered into partnerships with major players in the aeronautical industry to boost international sales. Along the way, Alta has grown from a $5-million company to making $13 million annually, mostly through military contracts and cost-reduction initiatives to optimize its business.

Improving cash flow

The majority of Alta's business comes from exports to Europe and the United States. Aside from delivery and customs logistics, one of the biggest hurdles is that manufacturing cycles can take anywhere from 12 to 24 months – that's a lot of time to wait for money to come in the door for a company of this size.

"We are a small business and, as such, cash flow will always be one of the biggest challenges," says Zerrad. "That is where having EDC in our corner has been a major strength. Not only does EDC provide effective financing solutions like EGP (*Export Guarantee Program*, which provides EDC backing on bank loans) to help us with operating capital, but it sees our potential and helps by providing monetary and other value-added services such as industry and market knowledge."

Jean Bellemare, Alta's EDC Account Manager, adds: "We also look at the complete supply chain and the cash flow cycle to help the company identify any problems. Then we look at financing options that can help."

For example, Montreal-based Bellemare recently suggested the company explore the possibility of financing assets outside of their balance sheet, such as buyer and supplier financing.

"We want to take our business to the next level," says Zerrad. "We see EDC as a major strategic partner in that; we also need to ensure we are running the business as efficiently and effectively as we can. If we do it right, we believe the sky's the limit for us."

Altaprecision.com

COLOMBIA

Security and Human Rights in Extractive Sector

Colombia has become the country to watch in the Southern hemisphere: oil is now the country's biggest export and Colombia has become the third-largest producer in South America after Venezuela and Brazil. There are many opportunities for Canadian companies to transfer their experience to the Colombian setting, but there are also risks and concerns, particularly with respect to security and human rights.

To raise awareness of human rights and security issues among Canadian companies operating in Colombia, Export Development Canada hosted a roundtable event on June 17, 2011 on *Security and Human Rights in the Extractive Sector in Colombia.* The roundtables also served as a forum to exchange ideas on best practices for addressing human rights and security issues.

Participants included individuals with diverse perspectives and experience from non-governmental organizations (NGOs), government departments and corporate enterprises. Canadian company representatives spoke strongly of their commitment to Colombia and to their considerable progress in implementing the UN Voluntary Principles on Security and Human Rights.

The current challenges for companies in managing security and human rights issues include the ongoing rebuilding of Colombia's reputation, the legacy from the ongoing armed conflict, a large number of indigenous communities, local institutions with limited capacity and the presence of criminal/guerrilla groups in some rural areas of the country. There is also the challenge of building relationships with various levels of government, NGOs and other organizations. While the security situation in Colombia continues to improve, companies are moving into more remote areas with a history of security and human rights violations, thus presenting greater challenges and risks to companies and their personnel.

Other shared observations included:

- Even companies with high standards might not be aware of how their actions could complicate the situation for a community that has a history of conflict or criminal activity.
- This situation can be avoided by undertaking prior due diligence and working with organizations such as CIDA or in-country NGOs to learn about the local context and initiatives that might already be underway in a region.
- Companies can contribute to local capacity by empowering people to do things for themselves and respond to local problems by helping a community apply for and obtain state funding for such things as infrastructure development.
- Companies can build trust by being sensitive to local customs, hiring local people, having the company CEO meet directly with local leaders, and taking a long-term business perspective.

A repeated observation was the need for companies to undertake comprehensive risk assessment of the local context because indigenous and local communities all have unique circumstances and needs. A 'one size fits all' approach does not work. Company due diligence should involve steps to identify local needs and their accompanying capacity gaps, as well as plans to respond to those needs and gaps. Capacity-building can occur by working with local peoples to strengthen their institutions, providing jobs, procuring supplies locally, and helping communities to develop their own commercial ventures.

Participants agreed on the need for companies to treat each community as unique, with distinct circumstances and traditions; as a result, region-specific risk analysis is critical. Insight gained from this approach should inform companies on how to build capacity in local communities and how to anticipate and respond to human rights situations. Managing security and human rights is an ongoing process and companies need to stay current and remain aware. Without trust and respect for human rights, even the most well-intentioned programs will fail. ■

Animal Spirits Spook the Economy

Depression-era economist John Maynard Keynes coined "animal spirits" to characterize how markets can be driven by herd-like shifts in sentiment to euphoria or panic with serious economic consequences. EDC's latest *Global Export Forecast* looks at both the fundamentals and wild market swings that are impacting the world economy – and when we might claw our way back to recovery. *Summarized from EDC's Global Export Forecast, Fall 2011.*

Over the past year, the world economy has struggled to return to growth, but performance has been flat. Unfortunately, "flat" is probably the best we can do for a while.

The global economy generated a gigantic pile of excesses, particularly in housing and debt, at the end of the last growth cycle, and we are still working them down. Stimulus created the illusion of a true recovery partway through the process, but we have since resumed dealing with the excesses. The good news is that we are getting closer to the balance point that will usher in true recovery.

Beset by shocks

An unhappy reality of a sideways economy is that it is particularly vulnerable to shocks. Two have been especially disruptive this year. First, with little or no warning, political turbulence hit North African nations early in the year and quickly spread to the Middle East. Oil production was put at risk, and prices soared, an untimely hit to consumers and businesses everywhere.

Second, a sequence of natural disasters has plagued world growth. The most serious was the devastating earthquake and tsunami in Japan, which arrested critical supply chains in the automotive, machinery and high-technology industries. Widespread floods, droughts and storms have further compromised the global food supply and delivery of key industrial commodities.

In more normal conditions, such supply shocks would merely delay growth. But in today's tentative economy, these disruptions can actually precipitate more serious and pervasive demand shocks.

Then came Europe

Adding to the general turmoil, the sovereign debt crisis in peripheral Europe worsened as a result of the unforeseen political and environmental shocks; market turmoil sent government bond yields to very high levels, while the winding down of stimulus programs dampened growth across the Eurozone.

In addition, lavish stimulus spending and collapsing revenues had caused public debt to rise to unthinkable levels in the world's largest economies. Faced with debt downgrades, many of those countries are now cutting overall government spending despite continued economic weakness. It is hardly surprising, then, that stock markets are in a tailspin, commodity prices are dropping and confidence is in freefall.

High spirits to herd mentality

There are a few signs that some temporary restraints on global growth appear to be loosening. Japanese production and exports seem to be emerging from their post-tsunami collapses. And, factory orders everywhere have been rising. It is still too early to tell whether these trends will continue, but they suggest that fundamental growth is perhaps not as weak as some of the more dramatic indicators would have us believe.

Mixed signals from market shocks, however, seem to be feeding the volatility. Highly uncertain of the economy's next move, markets attempt to protect assets or capitalize on upward

Photo: © Minden Pictures/Firstlight

Rising momentum in key industries and other healing factors could bring the global economy into a greater state of balance by the latter half of 2012.

movements. They can end up taking actions, often irrational, that gain herd-like momentum – leading to serious economic consequences.

John Maynard Keynes referred to this phenomenon in the 1930s as "animal spirits," characterizing the means by which a depressed economy could restart itself. It applies equally well to how negative reactions in a highly nervous economy could create a vicious circle. Precariously indebted sovereign states are vulnerable to these same forces – as well as the countries and financial institutions most closely linked to them. This poses a threat to short-term global growth.

The good news: consumers are reducing their debt and setting themselves up for more normal spending. Housing markets are slowly healing. Banks are less tight with lending. Production may be vulnerable to low confidence, but appears to be increasing. Those lamenting low employment growth and stingy business investment forget that these indicators always lag behind a rise in basic activity.

Outlook

Our outlook expects that the world economy will capitalize on the current increase in underlying activity, and continue to find remedies for the shocks and weaknesses that beset near-term growth, tiding the economy through to better times.

Momentum is forecast to increase throughout 2012, lifting growth in developed markets from 1.6 per cent in 2011 to 2.6 per cent next year. The U.S. economy will take the lead, with a decent contribution from Japan as reconstruction boosts 2012 growth. Austerity will confine Western Europe to the back seat.

Emerging markets, by contrast, will rack up gains of 5.9 per cent this and next year. Consequently, global growth is forecast to accelerate modestly from 3.7 per cent in 2011 to 4.3 per cent in 2012 – a decent performance, all things considered.

What about Canada?

Throughout the global turmoil, Canada has been blessed with relatively strong domestic demand. Vibrant performance in the commodity sector has helped, but other areas of business have also rebounded from 2009 lows. Canada's fiscal policy was well managed going into the recession, and our banking sector has remained solid through the downturn.

Temporary factors will keep 2011 growth to 2.3 per cent, but Canada will be able to ride U.S. momentum next year, and post a moderate increase to 2.4 per cent in 2012. Exports will make a key contribution, with gains of 10.6 per cent and 6.6 per cent this year and next, respectively.

Commodity price volatility is going to result in a mixed performance in exports by industrial sector. Shipments of oil, gas and metals will suffer from lower commodity prices in 2012, although they will continue to grow in volume. Momentum in the U.S. economy will see exports in the auto sector growing at a double-digit pace next year.

Delayed orders have suppressed shipments in the aerospace sector this year, but we expect these exports should increase by 22 per cent in 2012.

Touching on some provinces, export growth will be strongest in Saskatchewan, thanks to the performance of fertilizer and agri-food sectors. Alberta, more dependent on the energy sector, will see growth moderate in 2012, while Ontario will generate growth in the middle of the pack.

The bottom line

Volatility is becoming today's norm, and with good reason. Underneath the chaos, there is a world economy that is righting itself. If it can continue to withstand the inevitable shocks that accompany a period of flat growth, and the animal spirits that are roiling markets, we may all be getting on with building the next global growth cycle in the latter half of 2012.

For the full report, visit ***www.edc.ca/gef***

Canada's
Trade Revolution

The data shows we're in a trade "revolution" and small business is definitely in.

PETER HALL

Vice-President
and Chief Economist

It's happening. We've been talking about it for generations – possibly our entire history, but it's now a reality. It's transforming the way Canadians are doing business, and gaining momentum. It could become the dominant force in the Canadian economy in just a few years, and it could easily catapult our nation's potential growth to a new level. What's happening? In a word, diversification. Canadians are doing business with non-traditional customers, and this business is growing at a furious pace.

How did it start? Suddenly, we couldn't make as much money in our default export market to the south. In 2003, the Canadian dollar started to appreciate against the greenback – not just by small amounts, but 8 to 9 per cent a year. That's enough to level margins, and then some, depending on the industry. This went on for five consecutive years. Exporters to the United States had to act, and fast. Knowing that they had great products, they started hawking them in other parts of the planet, and they found ready buyers. Here's proof: while total merchandise sales to the U.S. grew on average by 0.7 per cent annually between 2001 and 2008, sales to non-traditional markets rose on average by 12.3 per cent every year. What used to amount to 5 per cent of our exports quickly became over 11 per cent.

> "Canadian exports and investments to emerging and other non-traditional markets could amount to half our trade by 2025."

This phenomenon was pervasive. It swept across a vast range of industries, each of Canada's provinces, and it touched all the major regions of the world. In short, it's a development with sufficient experience and a wide enough reach that it can safely be called a trend. Pretty impressive for a small open economy with a huge dependence on one export market.

Can small and medium-sized companies capitalize? Absolutely. Thanks to technology, it has probably never been cheaper to do business halfway around the world, just-in-time and quality-assured. But there's more. Smaller companies tagging along with the supply chains of multinationals can gain access to unfamiliar markets. Or they can copy the methods of the trailblazers, and learn vicariously from their mistakes. Thanks to the momentum, it's likely easier to capitalize on 'brand Canada'. Another oft-forgotten possibility is not just globalizing sales, but production, leveraging the attributes of other nations to create globally efficient goods and services.

We have more going for us. Canada has an army of trade commissioners positioned around the world, with knowledge of the markets they are in and connections that could be very beneficial to small and large companies alike. For those willing to venture into unfamiliar territory, there are a bevy of risk-mitigating finance and insurance products to assist. In addition, trade is high on the current government's agenda, as demonstrated by ongoing initiatives on a number of fronts aimed at facilitating trade in a broader arena.

Will the trend continue? If it does, non-traditional activity is poised to rise to one-quarter of Canadian trade by 2020. If momentum grows, it could be as much as half of our trade by 2025. It's a movement many are caught up in, but there's plenty of room to join. Go for it!

EDC TOOLKIT

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 a.m. to 6 p.m. EST.

INSURANCE

Are you sure your U.S. or foreign customer will pay?
Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?
Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?
Protect yourself with EDC Performance Security Insurance which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For information on these and other insurance products, visit **edc.ca/insurance**.

WORKING CAPITAL

Do you need access to more financing?
By providing a guarantee to your financial institution through our Export Guarantee Program, we can help you access additional financing for export-related activities and/or foreign investments.

Do you need protection against currency fluctuations?
Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by forgoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts.

With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **edc.ca/wcs**.

ONLINE SERVICES

Will your customer pay?
Get a credit profile for as little as $30 with EXPORTCheck. We have more than 100 million companies in our database.
edc.ca/exportcheck

Looking for information on export finance?
The EXPORTFinanceGuide centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle. **edc.ca/efg**

Want some market insight that will actually help you make a decision?
Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets. **edc.ca/e-reports**

Online Solutions Advisor
EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
edc.ca/advisor

Are you ready to enter the export market?
Test your readiness by completing EXPORTAble?, an online questionnaire to help you prepare for your entry into foreign markets.
edc.ca/exportable

FINANCING

Want to turn your export sale into a cash sale?
EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged lines of credit with foreign banks, institutions and purchasers, under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **northstar.ca**

For information on these and other financing products, visit **edc.ca/financing**.

BONDING

What if my buyer demands a bond?
You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **edc.ca/bonding**.

Export*Wise*

Executive Editor
Etienne Grall, Director,
Planning and External Relations

Editors
TS Buchanan, tbuchanan@edc.ca
Toby Herscovitch, therscovitch@edc.ca

Creative
Insight Communications

Translation
Provided by EDC's translation team, under the direction of Josée Lamirande and Joanne Durocher.

Contributors
Burak Aktas
Eric Beauchesne
TS Buchanan
Peter Conlon
Peter Hall
Toby Herscovitch
Danny Kucharsky
Jean-François Lamoureux
Bob Repovs
Valerie Xavier

Printing Services
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EDC is a Crown corporation that provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets worldwide.

All dollar amounts indicated are in Canadian dollars unless otherwise specified.

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CONTACTS

EDC REGIONAL OFFICES AND INTERNATIONAL REPRESENTATIONS

Head Office
Export Development Canada
150 Slater Street
Ottawa, Canada K1A 1K3
Tel.: 613-598-2500 | Fax: 613-237-2690
edc.ca

WESTERN
contactwest@edc.ca
Linda Morris, Regional Vice-President

Vancouver Office
Tel.: 604-638-6950 | Fax: 604-638-6955

Edmonton Office
Tel.: 780-702-5233 | Fax: 780-702-5235

Regina Office
Tel.: 306-586-1727 | Fax: 306-586-1725

Calgary Office
Tel.: 403-537-9800 | Fax: 403-537-9811

Winnipeg Office
Tel.: 204-975-5090 | Fax: 204-975-5094

ONTARIO
contactontario@edc.ca
Stephen Callaghan, Regional Vice-President

Toronto Office
Tel.: 416-640-7600 | Fax: 416-862-1267

Mississauga Office
Tel.: 905-366-0300 | Fax: 905-366-0332

London Office
Tel.: 519-963-5400 | Fax: 519-963-5407

Ottawa Office
Tel.: 613-597-8523 | Fax: 613-598-3811

Windsor Office
Tel.: 519-974-7674 | Fax: 519-974-9753

QUEBEC
contactquebec@edc.ca
Julie Pottier, Regional Vice-President

Montreal Office
Tel.: 514-908-9200 | Fax: 514-878-9891

Quebec City Office
Tel.: 418-577-7400 | Fax: 418-577-7419

Drummondville Office
Tel.: 819-475-2587 | Fax: 819-475-2408

Ville Saint-Laurent
Tel.: 514-215-7200 | Fax: 514-215-7201

ATLANTIC
contactatlantic@edc.ca
David Surrette, Regional Vice-President

Halifax Office
Tel.: 902-442-5205 | Fax: 902-442-5204

Moncton Office
Tel.: 506-851-6066 | Fax: 506-851-6406

St. John's Office
Tel.: 709-772-8808 | Fax: 709-772-8693

MEXICO & CENTRAL AMERICA

Mexico City
Johane Séguin, Chief Representative
Tel.: 011-5255-5387-9316 | jseguin@edc.ca

Nathan Andrew Nelson, Regional Manager
Tel.: 011-5255-5387-9319 | nnelson@edc.ca

Monterrey
Marcos Pruneda, Regional Manager
Tel.: 011-5281-8378-0240 ext. 3360
mpruneda@edc.ca

Panama
Alain Gauthier, Chief Representative
Tel.: 011-507-294-2526
agauthier@edc.ca

BRAZIL & SOUTHERN CONE

São Paulo
Jean Cardyn, Regional Vice-President, South America
Tel.: 011-5511-5509-4320 | jcardyn@edc.ca

Monica Busch, Regional Manager
Tel.: 011-5511-5509-4361 | mbusch@edc.ca

Rio de Janeiro
Fernanda de A. Custodio, Regional Manager
Tel.: 011-5521-2295-0391 | fcustodio@edc.ca

ANDEAN REGION

Lima
Stephen Benoit, Chief Representative
Tel.: 011-51 1 319-3385 | sbenoit@edc.ca

CHILE

Santiago
Christian Daroch, Regional Manager
Tel.: 011-56 2 652-3807 | cdaroch@edc.ca

CENTRAL AND WESTERN EUROPE

Germany
Klaus Houben, Senior Regional Manager
Tel.: 011-49 0 211 17217 45 | khouben@edc.ca

TURKEY

Istanbul
Burak Aktas, Chief Representative
Tel.: 011-90-212-385-9700 | baktas@edc.ca

GREATER CHINA

Shanghai
Jacques Lacasse, Chief Representative
Tel.: 011-86-21-32792832 | jlacasse@edc.ca

Beijing
Wang Hui, Associate
Tel.: 011-86-10-51394126 | hwang@edc.ca

RUSSIA AND CIS

Moscow
John Place, Chief Representative
Tel.: 613-598-2869 | jplace@edc.ca

Maxim Berdichevsky, Regional Manager
Tel.: 011-7-495-925-6896 | mberdichevsky@edc.ca

SOUTHEAST ASIA

Singapore
Peter Nesbitt, Regional Vice-President, Asia
Tel.: 011-65-6854-5868 | pnesbitt@edc.ca

Rob Simmons, Chief Representative
Tel.: 011-65-6854-5949 | rsimmons@edc.ca

Rajesh Sharma, Regional Manager
Tel.: 011-65-6854-5949 | rasharma@edc.ca

INDIA

New Delhi
Vibhav Agarwal, Regional Manager
Tel.: 011-91-11-4178 2288 | vagarwal@edc.ca

Mumbai
Vijendra Gairola, Chief Representative, India
Tel.: 613-597-8594 | vgairola@edc.ca

UNITED ARAB EMIRATES

Abu Dhabi
Jean-François Croft, Chief Representative
Tel.: 011-971-2-694-0376 | jcroft@edc.ca

Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner! This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC. To register, please visit **tradecommissioner.gc.ca**.

Companies with total **annual sales of up to $10 million** can call EDC's team of small business specialists at **1-888-332-9398**.

Companies with total **annual sales of more than $10 million** can call the nearest EDC regional office at **1-888-332-3777**.